



Winter 2003

Internal Revenue Service  
Illinois Department of Revenue

A joint, quarterly publication  
for Illinois tax practitioners

## E-Filing Agreement Signed

*Free electronic tax return filing for 78 million taxpayers begins in January*

**O**n October 31, 2002, Treasury announced that an agreement was signed that will allow up to 78 million taxpayers to file their tax returns electronically without charge. The agreement between the **IRS** and Free File Alliance, LLC was signed by former IRS Commissioner Charles Rossotti and Free File Alliance manager Mike Cavanagh. Under the agreement, tax software companies will offer at no charge on-line tax return preparation and filing services to a significant portion of American taxpayers. The IRS will provide taxpayers links to these free services through [irs.gov](http://irs.gov) and [firstgov.gov](http://firstgov.gov). The final agreement along with IRS' response to the public

comments on the draft agreement was posted in the Federal Register.

"We are one step closer to allowing millions of taxpayers free electronic filing of their tax returns," stated Treasury Secretary Paul O'Neill.

Free federal electronic filing of tax returns is pro-consumer and pro-taxpayer. Up to 78 million Americans stand to benefit from this free service. This initiative was launched as part of the President's budget last year. The President has also proposed a 15 day filing extension for all taxpayers who file electronically, including those eligible for free filing under this initiative. ❧

## Illinois Recaps 2003 Processing Season Electronic Filing Changes

**T**he **Illinois Department of Revenue** announces the following changes for the electronic IL-1040 2003 processing season:

- ✓ A taxpayer can authorize the electronic return originator to initiate an electronic funds withdrawal on a specific date to pay the amount owed on the electronic 2002 IL-1040 return (excludes the PC-file method).
- ✓ Form IL-8453, 2002 Illinois Individual Income Tax Electronic Filing Declaration, has been revised to include the electronic funds withdrawal payment option information.
- ✓ The time for transmitting e-Filed 2002 IL-1040 Individual Income Tax returns has been extended to midnight on October 15, 2003.
- ✓ Form IL-4562, Special Depreciation, has been developed to calculate the Illinois addition and subtraction modifications and must accompany the electronic IL-1040 if special depreciation is claimed.
- ✓ The IL-1040 Line 9 has been expanded to include
  - contributions to the "Bright Start" College Savings Pool program,
  - depreciation from Form IL-4562, Special Depreciation Form, and
  - other states' income tax refunds.
- ✓ Standard postal abbreviations must be used on the electronic Schedule CR, Credit for Tax

(Electronic Filing Changes continued on Page 4.)



## Director Bower's Message

Glen L. Bower

Illinois Department of Revenue Director

At the **Department of Revenue** we are preparing for the upcoming income tax processing season. We are mailing tax forms, completing the final testing of our computer system, and training our staff.

Some aspects of the 2003 processing season will not change. The Department of Revenue will continue to promote electronic filing of tax returns by paying refunds in about one week to electronic filers who choose the direct deposit refund option. Over the last four years we have increased electronic filers by 1 million, to 1.6 million last year.

Other aspects of the 2003 processing season will be different. The department lost 423 employees to early retirement, and we will be able to replace only half of them. We will have fewer employees and we will be training employees in new jobs.

For you and your clients, these changes mean that there's never been a better time for electronic filing. Not only will electronic filing continue, as it has for the last

four years, to mean faster refunds, but also paper refunds may be particularly slow. I encourage each of you to encourage your clients to file electronically.

One of our new electronic payment features this year will be the ability for taxpayers to make their 2003 estimated payments (Form IL-1040ES) on-line. Taxpayers can log onto our web site at [www.ILtax.com](http://www.ILtax.com) and either make a payment or schedule all four quarterly payments. The new service will be available in February.

A second new on-line feature that you may find worthwhile is the ability to reprint a taxpayer's 1099-G information. The taxpayer needs only to visit our web site and have his or her IL-PIN available. This simplifies the situation for taxpayers who move or otherwise lose their Form 1099-G.

Most of this newsletter is devoted to filing season-related information including changes for the upcoming year along with lists of common problems to be avoided. I encourage you to check our web site at [www.ILtax.com](http://www.ILtax.com)

(**Director Bower's Message** continued on Page 3.)



## Territory Manager Kopeck's Message

Joanne Kopeck

IRS Territory Manager  
Small Business/Self-Employed Division  
Taxpayer Education and Communication

I am sure that many of you are aware that we at the **Internal Revenue Service (IRS)** are realigning our audit resources to focus on key areas of non-compliance with the tax laws. The strategy represents a new direction for our compliance effort.

Following months of research and planning, the new approach will focus on high-risk areas of non-compliance. The IRS effort will generally focus first on promoters and then on participants in these various schemes. The initiative will feature new and enhanced efforts on several priority areas, including:

- Offshore credit card users
- High-risk, high-income taxpayers
- Abusive schemes and promoter investigations
- High-income non-filers
- Unreported income
- The National Research Program

Increased resources for audits — also known as examinations — will be devoted to these projects in Fiscal Year

2003, which will be a year of transition and training as new audit cases move into the IRS system.

The IRS Small Business/Self-Employed Division will handle the new effort in these key areas affecting individuals and businesses. Compliance efforts will continue in other parts of the agency, such as the tax shelter initiative in the Large and Mid-Sized Business Division.

This initiative reflects part of a broader, agency-wide plan at the IRS. This strategy places a top priority on pursuing promoters of abusive schemes, shelters and trusts and then identifying participants in these efforts to evade taxes. To address these problems, we have revamped our compliance programs to refocus on problem areas. We will use a full scope of tools and techniques ranging from summons enforcement, injunctions and criminal investigation of promoters to civil audits of participants.

The strategy reflects the new way of doing business at the IRS. Several of these efforts — such as the National

(**Territory Manager Kopeck's Message** continued on Page 3.)



(Director Bower's Message continued from Page 2.)

for questions that may arise. This newsletter also includes an updated list of new legislation.

This will be my last message to you as Director of Revenue. When I took this position in 1999, I sought to meet the following goals:

- **Boost electronic commerce:** We increased electronic income tax returns by 1 million and boosted credit card payments and direct deposit of refunds.
- **Aggressively collect debt:** We embraced federal refund offset, Internet delinquent disclosure, state employee non-filer, and other programs
- **Improve efficiency:** We've improved service and operations with reduced personnel.

I had one other goal, and that was to improve communications between the department and tax professionals and taxpayers through changes that included the open regulatory process. I believe Illinois citizens have benefited from this more open approach. Your comments or suggestions have allowed us to improve tax administration. I thank each of you for your support during these last four years. ❧

(Territory Manager Kopeck's Message continued from Page 2.)

Research Program and the credit card initiative — reflect innovative approaches to tackle long-standing tax problems. And our reorganization has allowed key parts of the organization to work together in ways we did not previously. For example, the new audit initiative will include similar emphasis for our collection area. And new levels of cooperation and coordination are underway on initiatives that involve both civil actions and criminal investigation. These illustrate how the new IRS business model better positions the agency to respond to high-risk tax areas.

For the six new areas, the agency will direct more examination resources to address these issues. However, the IRS will maintain a presence in other audit areas to maintain core tax administration responsibilities. Additional exam resources will help meet this requirement. You can read more about the key areas for the new initiative in this issue of the Fed-State Tax Review.

It is hard to believe that we are in the midst of another filing season. Our IRS mission of providing top quality service and applying the tax laws with integrity and fairness is as steadfast as ever. I look forward to working with you in partnership and am confident that this will be an extremely successful filing period. ❧

## Look what's inside Features...

Filing Your Business Tax Returns Has Never Been Easier! .....	4
Pay Your Federal Taxes in A Matter of Minutes ..	4
It's Kick-off Time!!! .....	5
IDOR Lists Electronic Filing Reminders .....	5
IRS Names Rich Morgante Deputy Commissioner, Tax Exempt and Government Entities Division .....	6
How Tax Professionals Can Avoid Refund Delays .....	6
Top IDOR Electronic IL-1040 Rejects for 2002 Processing Season .....	7
Filing Reminders for Illinois Income Tax Returns .....	8
IRS Helps Taxpayers Preserve Retirement Savings by Allowing a Change to Pension Distribution Amounts .....	9
How to Avoid Problems With 2D Bar Coded IL-1040s .....	10
IRS Reminds Taxpayers Some Refinancing Costs May Be Deductible .....	10
IRS Announces Pension Plan Limitations for 2003 .....	11
Filing Season Tax Assistance Schedule .....	12
Internet Business Registration Now Available at IDOR .....	12
Taxpayer Service Assistance .....	13
New IRS Toll-Free Number for Businesses .....	14
IDOR Adopts Foreign Tax Credit Regulation and Amends Schedule CR Instructions .....	14
IRS Changes Filing Requirements for Schedule B .....	15
Illinois Legislative Recap .....	16
Tax Shelter Disclosure Initiative Benefits the IRS in Fighting Abuse .....	17
IRS Proposes User Fee For Certain Offer-in-Compromise Requests .....	17
IRS Sets New Audit Priorities .....	18
IRS Reaffirms Abusive Nature of "LIFO" Tax Shelter Transaction .....	20
Federal Court Approves Service of IRS Summons on MasterCard .....	20
IRS Issues Additional Certifications of Hybrid Vehicles for Clean Fuel Deduction .....	20

## In every issue...

Psssst...Pass It On! .....	21
Notes for Practitioners .....	21
IRS Official Rulings and Procedures .....	22



Editor

Office of Publications Management,  
IDOR

101 West Jefferson  
Springfield, IL 62702

Public Information Officer  
Mike Klemens, IDOR

Communications  
Mona Klaber, IRS

**Electronic Filing** *continued from Page 1*

Paid to Other States. Schedules CR received without the standard postal abbreviations will be rejected.

- ✓ The instructions on Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax, regarding nonresident taxpayers whose only Illinois income is from wages and questions regarding a taxpayer's residency have been changed.
- ✓ A new contribution, Multiple Sclerosis Assistance Fund, has been added to Form IL-1040.
- ✓ IDOR will support the "ZMODEM" for the 2003 processing season.
- ✓ Rejected electronic IL-1040 returns transmitted using the federal/state method may be retransmitted if the software permits.
- ✓ IDOR will not mail paper copies of electronic filing specifications and record layouts, procedures, error code messages, and test cases. All of our electronic filing information is available on our web site at [www.ILtax.com](http://www.ILtax.com). Just click on "Tax Professionals".

## Pay Your Federal Taxes in A Matter of Minutes

Did you know that you can now pay your federal taxes from the convenience of your home or office? All you need is a telephone or computer!

The Electronic Federal Tax Payment System (EFTPS) is the easiest way to make federal tax payments. You can save time, receive immediate confirmation of all transactions, and access up to 120 days of payment information on line. In addition, you may

schedule a federal tax payment for up to 120 days in advance for businesses and up to 365 days in advance for individuals. EFTPS can be used to pay 1040ES quarterly payments, installment agreements, and tax payments for corporate, partnership, and all business and personal federal taxes.

Enrollment is easy and it's free! For more information about EFTPS, visit [www.eftps.gov](http://www.eftps.gov).

## Filing Your Business Tax Returns Has Never Been Easier!

Business owners and tax practitioners can save time and money by electronically filing (e-filing) tax returns. E-filing also reduces processing time and helps avoid common errors. With e-filing, within just minutes of filing, the transmitter will receive a confirmation that the tax return has been filed and accepted by the **Internal Revenue Service (IRS)**.

And there's even more good news! More business tax returns are now e-file friendly.

Forms 940, 941, 1065, and Schedules C and SE, are just a few of the federal business tax forms that can be filed electronically.

By the year 2007, the IRS hopes to have 80 percent of all tax returns filed electronically. So next time you file, have peace of mind with e-file.

For more information about e-file, visit [www.irs.gov](http://www.irs.gov).



## File • Deposit • Pay



**It's Kick-off Time!!!**

The **Illinois Department of Revenue** is gearing up for the big "electronic filing" kick-off

day! Our season began on January 9, 2003, with the filing of I-File and TeleFile returns. And, on January 10, 2003, our communications processor started humming as tax professionals began

transmitting 2002 IL-1040 returns. We expect the 2003 processing season to be our best ever! So, if you aren't already a participant in our Illinois Electronic Filing Program, this is the year to get on board! It's easy — just visit our web site at [www.ILtax.com](http://www.ILtax.com), and click on "Tax Professionals" to obtain our Form IL-8633, Application to File Illinois Income Tax Returns Electronically. ☎

## IDOR Lists Electronic Filing Reminders

- ✓ Transmitters of electronic 2002 IL-1040, Individual Income Tax returns are not required to test with **IDOR** as long as they are using software approved by the department. However, transmitters may opt to test with the department to ensure no problems will occur when transmitting "live" returns or picking up "live" acknowledgments.
- ✓ IDOR provides a toll-free telephone number **exclusively for electronic filing tax professionals**. Please do not give your clients this telephone number. Usage by individual taxpayers will delay the department in assisting tax professionals. The toll-free number is 1 866 440-8680.
- ✓ Transmitters are responsible for retrieving electronic IL-1040 acknowledgments by calling IDOR's communications processor. Illinois provides a separate acknowledgment for the IL-1040. Acknowledgments should be retrieved on a continuous basis.
- ✓ IDOR periodically publishes a one-page newsletter, **E-Connection Newsletter**, for electronic return originators and software developers. We use this newsletter to keep you informed of any processing alerts, revisions to our forms and booklets, processing changes, law changes, etc.

If you do not receive *E-Connection Newsletter* and would like to be added to our distribution list, please call our toll-free number, 1 866 440-8608.

Since we are an e-commerce section, we naturally prefer to distribute *E-Connection Newsletter* by e-mail. If you receive our newsletter by mail and want to receive it by e-mail instead, call our toll-free number and tell us your e-mail address.

Please remember to tell us if you change your Internet service provider or e-mail address. ☎

### Visit IDOR at [www.ILtax.com](http://www.ILtax.com)

The **Illinois Department of Revenue** (IDOR) makes it easy for you and your customers to access information on our web site.

Just type in **[www.ILtax.com](http://www.ILtax.com)** and it will take you to IDOR's home page. ☎



## IRS Names Rich Morgante Deputy Commissioner, Tax Exempt and Government Entities Division

The **Internal Revenue Service** (IRS) has announced the selection of Rich Morgante as Deputy Commissioner, Tax Exempt and Government Entities Division.

He succeeds Darlene Berthod, who recently retired.

Morgante will assist TE/GE Commissioner Evelyn Petschek in overseeing the administration of complex provisions of tax law relating to employee plans, tax-exempt organizations, and various government entities. There are about 3 million organizations which are affected by these provisions and which form TE/GE's customer base. They include small local community organizations and municipalities, major universities, pension funds, state governments and Indian tribal governments.

Morgante, a 1992 graduate of the IRS Executive Development Program, most recently served as Director of Management and Finance in the Small Business/Self Employed Division, where he managed the financial, human resources, and strategic planning activities for the IRS's largest operating division. Other positions held during his tenure with IRS include National Director for Economic Analysis, National Director for Budget, Assistant Director of the Los Angeles District (a former Employee Plans/Exempt Organizations key district), and Director of the Gulf Coast District.

A native of Buffalo, New York, Morgante holds a B.A. degree in Philosophy and Theology from St. John Vianney Seminary in East Aurora, New York, a Certificate in Public Administration from the University of Southern California, and a Certificate in Financial Management from George Washington University.



### How Tax Professionals Can Avoid Refund Delays

The **Illinois Department of Revenue** advises tax professionals that, based on current projections, refunds for the 2003 filing season may be delayed as they were in 2002.

**Filing your clients' returns electronically before April 15 and choosing the direct deposit option is the best way to avoid the refund delay.** All returns are processed in the order in which they are received. But, paper returns are more labor-intensive


to process; therefore, refunds associated with these returns generally take longer to be issued. Refunds associated with electronically filed returns — when the direct deposit option is chosen — are usually issued in about one week, often less.

If you are not registered in our Electronic Filing Program, we strongly encourage you to join this filing season. Visit our web site at [www.ILtax.com](http://www.ILtax.com), and choose the "Tax Professional" section

to obtain Form IL-8633, Application to File Illinois Income Tax Returns Electronically. A "fill in" Form IL-8633 is available on our web site as an added convenience. The procedures you must follow to file Form IL-1040 electronically and other information about electronic filing is also provided on our web site.

If you choose not to join our Electronic Filing Program, urge your clients to electronically file the returns that you prepare for them.

Instruct your client to

- visit our web site at [www.ILtax.com](http://www.ILtax.com) and click on "I-FILE here",
- enter the information from the paper return that you prepared, and
- choose the "Direct Deposit" option to electronically direct the refund to a personal checking or savings account, to receive a refund in about one week. 



## Top IDOR Electronic IL-1040 Rejects for 2002 Processing Season

The 2002 processing season was a **big** success but there were still a number of rejected returns. In effort to prevent future rejects, the **Illinois Department of Revenue** has compiled the following list of the top ten reasons returns were rejected during the 2002 processing season.

Error code	Solution
▶ <b>Error code 902</b> — Duplicate declaration control numbers (DCN).	<b>Solution:</b> The DCN on a return can only be filed once for the current tax year.
▶ <b>Error code 029</b> — Electronic filing tax professional not enrolled in the Illinois Electronic Filing Program.	<b>Solution:</b> Illinois requires the tax professional to 1) file Illinois Form IL-8633, Application to File Individual Income Tax Returns, 2) be accepted in the IRS' Electronic Filing Program, and 3) agree to follow all procedures, requirements, and specifications contained in the Illinois Department of Revenue Procedure for Electronic Filing of Individual Income Tax Returns (IL-1345).
▶ <b>Error code 123</b> — On Form W-2, the state wages are less than the Illinois state income tax.	<b>Solution:</b> The Form W-2 amount for state wages must be greater than the Illinois income tax.
▶ <b>Error code 560</b> — The total amounts on all the Illinois wage forms does not equal Illinois Income Tax Withheld on the IL-1040, Line 17.	<b>Solution:</b> The total amounts on all the wage forms designated as Illinois must equal Illinois Income Tax Withheld. Enter only whole dollars because rounding causes rejects.
▶ <b>Error code 530</b> — The US 1040 and US Schedule B, or the US 1040A and the US Schedule 1 are present in a return and either incomplete or do not meet the IRS requirements for form or structure.	<b>Solution:</b> All US forms accompanying an electronic IL-1040 must be complete and must meet the IRS requirements for form and structure.
▶ <b>Error code 020</b> — The name format on the Illinois return is not the same as on the federal return.	<b>Solution:</b> The names on both the Illinois 1040 and the US 1040 must be <b>exactly</b> the same. More than one space between names and punctuation causes rejects.
▶ <b>Error code 125</b> — The 1099-R, Illinois tax withheld amount is greater than the state distribution.	<b>Solution:</b> The Illinois tax withheld amount <b>must be less</b> than the state distribution amount on the Form 1099-R.
▶ <b>Error code 007</b> — The street address is not alphanumeric or has leading or consecutive spaces.	<b>Solution:</b> The street address must be alphanumeric and the only acceptable punctuation include hyphen (-) and slash (/). Too many spaces and punctuation cause rejects.
▶ <b>Error code 013</b> — Fields contain the type of data not specified in the record layouts.	<b>Solution:</b> Fields must contain the type of data specified in the record layouts.
▶ <b>Error code 602</b> — School name and/or city are missing from Schedule ED, Credit for Qualified Education Expenses.	<b>Solution:</b> The school name and/or city must be present on Schedule ED. ❗

## Filing Reminders for Illinois Income Tax Returns

A filing error causes a processing delay, which means that a refund cannot be issued until the error is resolved. When the **Illinois Department of Revenue** finds a mistake, we send an error notice to the taxpayer, which usually requires a response before the account can be resolved. Here are some suggestions to help reduce the most common filing errors.

- ✓ **Read the Form IL-1040 Instructions.** Pay extra attention to instructions for any subtractions and credits claimed, and to special situations that may apply (e.g., part-year or nonresidents, out-of-state income).
- ✓ **Write everything legibly** (personal information, as well as figures). If there are no changes to the personal information, use the preprinted label provided with the booklet.
- ✓ **Check the same filing status that was checked on the federal return.** Exception: If a joint federal return is filed and one spouse is an Illinois resident while the other is a part-year or nonresident, it might benefit them to file "married filing separately." See the Form IL-1040 instructions for more information.
- ✓ **Attach all required supporting documentation.** The following documents are forgotten most often:
  - For Line 5, Page 1 of the US-1040
  - For Line 8, Federal Schedule B, with U.S. obligations clearly identified, and mutual fund statements
  - For Line 9, subtractions clearly identified by name and the specific documentation requested in the instruction booklet
  - For Lines 6 & 17, W-2s, 1099-Rs, and W-2Gs, including military W-2s
  - For Line 14, Schedule NR
  - For Line 19, Schedule CR, and out-of-state returns and those states' schedules and attachments
  - For Line 21, Schedule ED or Receipt for Qualified Education Expenses
- ✓ **On Line 17, report only Illinois tax withheld.**
- ✓ **Review the estimated payment record before writing an amount on Line 18.** Adjust for any changes the department made to the taxpayer's credit from the previous year.
- ✓ **Be sure to complete both Lines a and b for any credits claimed on Lines 20, 21, or 22.**
- ✓ **When figuring the Education Expense Credit, *do not* include education expenses for the taxpayer or for daycare, preschool, and college.**
- ✓ **If income is annualized, check the box under Line 27 and attach Form IL-2210.**
- ✓ **PC tax software users (i.e., 2D bar code filers) must reprint returns if an error (e.g., name, address, SSN and tax information) is discovered *after* the return is printed.** The PC software package prints a bar code that the department scans to reduce processing time and costs. The correction will not be reflected if a change is made but the bar code is not reprinted.
- ✓ **Double-check all W-2 amounts.**
- ✓ **Double-check all calculations, including those on Schedule NR, Schedule CR, and on lines for which credits are claimed.**
- ✓ **The taxpayer (and spouse, if a joint return is filed) must sign Form IL-1040 and provide a daytime telephone number.** Tax preparers are also required to sign the return and to provide a telephone number.
- ✓ **When using a preprinted voucher, when changes are made to voucher information, mark through the scanline at the bottom of the voucher.**
- ✓ **Write the taxpayer's Social Security number (SSN) on the check or money order.**
- ✓ **If tax is owed, make the remittance payable to the Illinois Department of Revenue, not the IRS (Internal Revenue Service).**

Filing Reminders *continued on Page 9.*





Filing Reminders *continued from Page 8.*

- ✓ **Be sure to send both pages of Form IL-1040** (front and back).
- ✓ **Use the correct address label to indicate if return is a refund or balance due.** Returns *without* payments should be mailed to "Illinois Department of Revenue, Springfield, IL 62719-0001." Returns *with* payments should be mailed to "Illinois Department of Revenue, Springfield, IL 62726-0001."
- ✓ **Make sure that the correct envelopes are used** (IL-1040 in the Illinois Department of Revenue envelope and the Federal return in the Internal Revenue Service envelope).
- ✓ **Make sure the taxpayer's address is correct.** If the taxpayer is moving, advise them to use direct deposit or provide the department an address where the refund can be delivered.
- ✓ **Do not send us copies of a partnership's Schedules K-1-P with its return.** Partnerships should keep the copies with their tax record files, however.
- ✓ **For faster filing and refunds use one of the electronic filing methods: e-File, PC File (PC-to-PC/on-line filing), I-File or TeleFile.** ☎

## IRS Helps Taxpayers Preserve Retirement Savings by Allowing a Change to Pension Distribution Amounts

The Treasury Department and the **Internal Revenue Service** (IRS) have released Revenue Ruling 2002-62 that will help taxpayers preserve their retirement savings when there is an unexpected drop in the value of their retirement savings. Some taxpayers began receiving fixed payments from their IRA or retirement plan based on the value of their account at the time they started receiving payments. Those taxpayers may now switch – without penalty — to a method of determining the amount of their payments based on the value of their account as it changes from year to year.

"Taxpayers have worked hard to build their retirement savings. They shouldn't be penalized when the market is down," stated Pam Olson, Assistant Secretary for Tax Policy. "This change will help many taxpayers to preserve their retirement savings by allowing those individuals to slow their distributions down in the event of unexpected market downturns."

Generally, taxpayers are subject to an extra 10 percent tax (in addition to regular income tax) on amounts withdrawn from their IRAs or employer-sponsored individual account plans prior to reaching 59½. An exception to that tax is when a taxpayer takes distributions as part of a series of substantially equal periodic payments over the taxpayer's life expectancy or the joint life expectancies of taxpayer and beneficiary. The IRS issued guidance in 1989 (Q&A 12 of Notice 89-25) that provided three meth-

ods for satisfying the "substantially equal periodic payment" exception.

Two of the safe-harbor methods described in Notice 89-25 result in a fixed amount that is required to be distributed and could result in the premature depletion of the taxpayer's account in the event that the value of the assets in the account suffers a decline in market value. Revenue Ruling 2002-62 provides relief to taxpayers who selected one of these two methods by permitting them to change from a method for determining the payments under which the amount is fixed to the third method under the safe-harbor where the amount changes from year to year based on the value in the account from which the distributions are being made.

In addition to permitting a one-time switch in method, the revenue ruling:

- clarifies how an individual can satisfy the permitted method that tracks the required minimum distribution rules of section 401(a)(9) in light of the recent finalization of regulations regarding those requirements;
- provides guidance on what constitutes a reasonable rate of interest for determining payments to satisfy the substantially equal periodic payment rule; and
- provides a choice of mortality tables that can be used in satisfying the permitted methods. ☎

## How to Avoid Problems with 2D Bar Coded IL-1040s

In 2003, the **Illinois Department of Revenue** will begin its fourth year of 2D bar code IL-1040 processing, a program that has benefitted taxpayers and the department. To date, IDOR has processed 2.5 million 2D IL-1040s, speeding processing, eliminating data errors, and saving the department money.

Some of the problems that have been encountered through 2D processing are listed below.

- ▶ Returns filed without the taxpayer's signature
- ▶ Changes or corrections were made to Form IL-1040 *after* the 2D bar code has been printed on the return
- ▶ Non-readable bar codes due to printers being set to print too light or too dark
- ▶ The bar code is not printed in the specified bar code area on the return due to incompatibility between software and hardware
- ▶ Taxpayers apply the preprinted label from their booklets to the 2D return and cover the bar code

Carefully review each return to ensure that the taxpayer's return is free from such filing errors. ☞

## IRS Reminds Taxpayers Some Refinancing Costs May Be Deductible

As thousands of people refinance their home mortgages, the **Internal Revenue Service** (IRS) reminds taxpayers that they may be eligible to deduct some costs associated with their loans.

Generally, for taxpayers who itemize, the "points" paid to obtain a home mortgage may be deductible as mortgage interest. Points paid to obtain an original home mortgage can be, depending on circumstances, fully deductible in the year paid. However, points paid solely to refinance a home mortgage usually must be deducted over the life of the loan.

For a refinanced mortgage, the interest deduction for points is determined by dividing the points paid by the number of payments to be made over the life of the loan. Usually, this information is available from lenders. Taxpayers may deduct points only for those payments made in the tax year. For example, a homeowner who paid \$2,000 in points and who would make 360 payments on a 30-year mortgage could deduct \$5.56 per monthly payment, or a total of \$66.72 if he or she made 12 payments in one year.

However, if part of the refinanced mortgage money was used to finance improvements to the home and

if the taxpayer meets certain other requirements, the points associated with the home improvements may be fully deductible in the year the points were paid. Also, if a homeowner is refinancing a mortgage for a second time, the balance of points paid for the first refinanced mortgage may be fully deductible at pay off.

Other closing costs – such as appraisal fees and other non-interest fees – generally are not deductible. Taxpayers also should be mindful that the amount of their Adjusted Gross Income can affect the amount of deductions they can take.

For more information on deductions related to refinancing, taxpayers should visit [www.irs.gov](http://www.irs.gov), Frequently Asked Questions (keyword: refinancing fees), or review Publication 936, "Home Mortgage Interest Deduction," Tax Topic 504, "Home Mortgage Points," and Tax Topic 505, "Interest Expenses," also provide valuable information.

Other tax information on residential real estate can be found in Publication 523, "Selling Your Home," Publication 527, "Residential Rental Property," and Publication 530, "Tax Information for First-Time Homeowners." All publications are available on the IRS Web site or by calling 1-800-829-3676. ☞



## IRS Announces Pension Plan Limitations for 2003

The **Internal Revenue Service** (IRS) has announced cost-of-living adjustments applicable to dollar limitations for pension plans and other items for Tax Year 2003.

Section 415 of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. It also requires that the Commissioner annually adjust these limits for cost-of-living increases.

Many of the pension plan limitations will not change for 2003. For most of the limitations, the increase in the cost-of-living index fell below the statutory thresholds that would otherwise trigger their adjustment. However, several of these limitations, set by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), are scheduled to increase at the beginning of 2003.

For example, under EGTRRA, the limitation under section 402(g)(1) on the exclusion for elective deferrals described in section 402(g)(3) is increased from \$11,000 to \$12,000. This limitation affects elective deferrals to section 401(k) plans and to the Federal Government's Thrift Savings Plan, among other plans.

### Cost-of-living limits for 2003

Effective January 1, 2003, the limitation on the annual benefit under a defined benefit plan under section 415(b)(1)(A) remains unchanged at \$160,000. For participants who separated from service before January 1, 2003, the limitation for defined benefit plans under section 415(b)(1)(B) is computed by multiplying the participant's compensation limitation, as adjusted through 2002, by 1.0159.

The limitation for defined contribution plans under section 415(c)(1)(A) remains unchanged at \$40,000.

The Code provides that various other dollar amounts are to be adjusted at the same time and in the same manner as the dollar limitation of section 415(b)(1)(A). These dollar amounts and the adjusted amounts are as follows:

The annual compensation limit under Sections 401(a)(17), 404(l), 408(k)(3)(C), and 408(k)(6)(D)(ii) remains unchanged at \$200,000.

The dollar limitation under Section 416(i)(1)(A)(i) concerning the definition of key employee in a top-heavy plan remains unchanged at \$130,000.

The dollar amount under Section 409(o)(1)(C)(ii) for determining the maximum account balance in an employee stock ownership plan subject to a 5-year distribution period is increased from \$800,000 to \$815,000, while the dollar amount used to determine the lengthening of the 5-year distribution period remains unchanged at \$160,000.

The limitation used in the definition of highly compensated employee under Section 414(q)(1)(B) remains unchanged at \$90,000.

The annual compensation limitation under Section 401(a)(17) for eligible participants in certain governmental plans that, under the plan as in effect on July 1, 1993, allowed cost-of-living adjustments to the compensation limitation under the plan under Section 401(a)(17) to be taken into account, is increased from \$295,000 to \$300,000.

The compensation amount under Section 408(k)(2)(C) regarding simplified employee pensions (SEPs) remains unchanged at \$450.

The compensation amounts under Section 1.61-21(f)(5)(i) of the Income Tax Regulations concerning the definition of "control employee" for fringe benefit valuation purposes remains unchanged at \$80,000. The compensation amount under Section 1.61-21(f)(5)(iii) remains unchanged at \$160,000.

### Limitations specified by statute

The Code, as amended by the Economic Growth and Tax Relief Act of 2001 (EGTRRA), specifies the applicable dollar amount for a particular year for certain limitations. These applicable dollar amounts are as follows:

The limitation under Section 402(g)(1) on the exclusion for elective deferrals described in Section 402(g)(3) is increased from \$11,000 to \$12,000.

The limitation under Section 408(p)(2)(E) regarding SIMPLE retirement accounts is increased from \$7,000 to \$8,000.

The limitation on deferrals under Section 457(e)(15) concerning deferred compensation plans of state and local governments and tax-exempt organizations is increased from \$11,000 to \$12,000.

The dollar limitation under Section 414(v)(2)(B)(i) for catch-up contributions to an applicable employer plan other than a plan described in Section 401(k)(11) or 408 (p) for individuals aged 50 or over is increased from \$1,000 to \$2,000. The dollar limitation under Section 414(v)(2)(B)(ii) for catch-up contributions to an applicable employer plan described in Section 401(k)(11) or 408 (p) for individuals aged 50 or over is increased from \$500 to \$1,000.

Administrators of defined benefit or defined contribution plans that have received favorable determination letters should not request new determination letters solely because of yearly amendments to adjust maximum limitations in the plans. ❖

## Filing Season Tax Assistance Schedule

### Extended hours for individual income tax assistance

Taxpayers can receive assistance from IDOR or the IRS at the locations, hours, and dates listed below. Extended hours are offered February 1 through April 15.

#### **Willard Ice Building — 101 West Jefferson — Springfield (IDOR assistance only)**

##### **Business hours: 8:00 a.m. to 5:00 p.m.**

January 2 - April 4 ( <i>regular hours</i> )	Monday through Friday	8:00 a.m. to 5:00 p.m.
February 1 - April 12	Saturdays <i>only</i>	8:30 a.m. to 12:30 p.m.
April 7 - 15	Monday through Friday	7:30 a.m. to 7:00 p.m.

#### **James R. Thompson Center — 100 West Randolph — Chicago (IDOR and IRS assistance)**

##### **Business hours 8:30 a.m. to 5:00 p.m.**

February 3 - April 10 ( <i>regular hours</i> )	Monday through Friday	8:30 a.m. to 5:00 a.m.
April 7 - 15	Monday through Friday	7:30 a.m. to 6:00 p.m.

#### **Kluczynski Federal Building — 230 South Dearborn — Chicago (IDOR and IRS assistance)**

##### **Business hours 8:30 a.m. to 4:30 p.m.**

February 3 - April 10	Monday, Thursday	8:30 a.m. - 5:30 p.m.
February 4 - April 11 ( <i>regular hours</i> )	Tuesday, Wednesday, Friday	8:30 a.m. - 4:30 p.m.
February 8 - April 5	Saturdays <i>only</i>	8:30 a.m. - 12:30 p.m.
April 12	Saturday	8:30 a.m. to 2:30 p.m.
April 14 and 15	Monday and Tuesday	8:00 a.m. to 6:30 p.m.

## Internet Business Registration Now Available at IDOR

The **Illinois Department of Revenue** recently implemented an Internet business registration process. The on-line registration application is a fast, secure, and accurate method to register a business and receive an Illinois business tax number for the following taxes:


- Sales and use taxes
- Automobile renting occupation and use tax
- Withholding tax
- Business income tax

To register, visit our web site at [www.ILtax.com](http://www.ILtax.com) and click on "Illinois Business Gateway Business Registration."

To ensure that the registration is secure, all data exchanged is encrypted. In addition, digital credentials, which serve as an electronic signature, must be obtained during the application process. A valid Illinois driver's license is required to obtain digital credentials.

Some of the basic items needed before registering by the Internet are listed below.

- Business name and address
- Entity type such as corporation, partnership, sole proprietor, *etc.*
- Name and Social Security number of officers, partners, or individual owner
- Name, address, and Social Security number of each person responsible for filing returns and paying tax due
- Secretary of State corporate charter number and federal employee identification number, if applicable

We confirm a completed registration, and will issue the Illinois business tax number within 24 to 48 hours. If you have any questions about this process, either visit our web site at [www.ILtax.com](http://www.ILtax.com) or call 1 800 732-8866 or 217 785-3707. 



## Taxpayer Service Assistance

### January 1 - April 15, 2003

#### Internal Revenue Service

##### Personal Tax Assistance

**Individual returns** 1 800 829-1040  
 Assistance available  
 Monday — Friday 7 a.m. to 10 p.m.  
 Saturdays, January 25 — April 12 10 a.m. to 3 p.m.  
 Sunday, April 13 11 a.m. to 7 p.m.

**Refund hotline** 1 800 829-1954

**Business returns** 1 800 829-4933  
 Assistance available  
 Monday — Friday 7 a.m. to 10 p.m.

**Order forms and publications** 1 800 829-3676  
 Assistance available  
 Monday — Friday 7 a.m. to 10 p.m.  
 Saturdays, January 25 — April 12 10 a.m. to 3 p.m.  
 Sunday, April 13 11 a.m. to 7 p.m.

**Forms through your fax** 703 368-9694  
*(Use voice unit)*  
 24 hours a day, 7 days a week

**TeleTax** 1 800 829-4477  
*(recorded tax information)*  
 Touch-tone service available 24 hours a day,  
 7 days a week

**Assistance for hearing-impaired taxpayers,  
 who have access to television/telephone**  
 TDD equipment 1 800 829-4059

**Employer Identification Number (EIN)  
 Assignments**  
 Cincinnati IRS Center 1 866 816-2065  
 Attn: EIN Operation fax: 1 859 669-5760

**Fax completed Form SS-4** 816 823-7776

**Taxpayer Advocate's Hotline** 1 877 777-4778  
 Assistance available  
 Monday — Friday 7 a.m. to 10 p.m.  
 Saturdays 9 a.m. to 5 p.m.

**Practitioner Priority Service** 1 866 860-4259  
*Account related questions (Old Practitioner Hotline)*  
 Assistance available  
 Monday — Friday 7:30 a.m. to 5:30 p.m.

**Taxpayer Education and Communications  
 Office** *(request speakers)* 312 566-2900  
 Monday — Friday 8:00 a.m. to 4:30 p.m.

**Bulletin Board** *(computer and modem)*  
 IRIS at FedWorld 703 321-8020

**IRS Web Site**  
[www.irs.gov](http://www.irs.gov)

#### Illinois Department of Revenue

##### Personal Tax Assistance

Springfield area 217 782-3336  
 Elsewhere 1 800 732-8866  
 Assistance available  
 24 hours a day, 7 days a week

**Forms through the Internet** [www.ILtax.com](http://www.ILtax.com)

**Order forms and publications** 1 800 356-6302  
 24 hours a day, 7 days a week

**Forms through your fax** 217 785-3400  
*(Illinois Tax Fax)*  
 24 hours a day, 7 days a week

**Automated Refund Information**  
 Web site [www.ILtax.com](http://www.ILtax.com)  
 24 hours a day, 7 days a week  
 Taxpayer Assistance Line 1 800 732-8866  
 24 hours a day, 7 days a week

**Business Hot Line** 217 524-4772  
 Assistance available  
 Monday — Friday 8:00 a.m. to 5:00 p.m.

**Central Registration Division** 217 785-3707  
 Assistance available  
 Monday — Friday 8:00 a.m. to 5:00 p.m.

**Assistance for hearing-impaired taxpayers  
 who have access to television/telephone**  
 TDD equipment 1 800 544-5304

**Board of Appeals** 312 814-3004

**Freedom of Information Office** 217 782-0985

**Legal Services Office** 217 782-7054

**Public Information Officer** 217 782-3128  
 Monday — Friday 8:30 a.m. to 5:00 p.m.

**Problems Resolution Division**  
 Monday — Friday  
 Springfield 8:00 a.m. to 4:30 p.m. 217 785-7313  
 Chicago 8:30 a.m. to 5:00 p.m. 312 814-2624

**Circuit Breaker/Pharmaceutical  
 Assistance** 1 800 624-2459  
 Assistance available  
 Monday — Friday 8:30 a.m. to 5:00 p.m.

**Tax Fraud Hot Line** 1 800 243-2811  
 Assistance available  
 Monday — Friday 8:30 a.m. to 5:00 p.m.

**Home page** *(computer and modem)*  
 Web site [www.ILtax.com](http://www.ILtax.com)



## New IRS Toll-Free Number for Businesses

The **IRS** is making it easier and more efficient for taxpayers to get answers to their questions by offering two new toll-free numbers.

Business owners or prospective business owners can now call our new Business and Specialty Tax Line on 1 800 829-4933. Customers calling this number can apply for an Employer Identification Number (EIN), receive help on employment, partnership, corporation, estate, gift, trust and excise taxes, or on other small business issues. The line will be open Monday through Friday from 7 a.m. to 10 p.m. in all time zones.

By separating our individual and business service lines, access to IRS information will be quicker and easier. Taxpayers can continue to obtain assistance with individual tax issues by calling 1 800 829-1040.

Taxpayers who need information about an individual income tax refund, and have access to the Internet may find the fastest way to get assistance is through the "Where's my Refund?" automated self-service feature, available 24 hours a day on the IRS.gov Internet site. Taxpayers also can call a new Refund Hotline at 1 800 829-1954. ¶

## IDOR Adopts Foreign Tax Credit Regulation and Amends Schedule CR Instructions

On August 23, 2002, the new foreign tax credit regulation (86 Ill. Admin. Code Section 100.2197) was adopted. The regulation's definition of "double-taxed income" for purposes of computing the limitation on the credit is very different from the definition previously used by the department.

Under the new definition,

- ▶ an item of income is included in double-taxed income only to the extent both Illinois and the other state include that item in taxable income;
- ▶ a deduction for an expense is taken into account in computing double-taxed income only to the extent both Illinois and the other state allow the deduction (for example, double-taxed income of a Missouri taxpayer will not be reduced by the deductions allowed by Missouri for federal itemized deductions or for federal income taxes paid, because Illinois does not allow those deductions)
- ▶ exemptions and standard deductions are never taken into account.

The instructions for the Schedule CR for 2002 have been extensively revised to conform to the regulation. Taxpayers and practitioners are

encouraged to review these new instructions carefully when completing the Schedule CR.

The **Illinois Department of Revenue** also intends to publish line-by-line guidance for computing double-taxed income from the tax return forms of other states. This guidance will be made available on the department's web site as soon as possible after the 2002 return forms for the other states can be reviewed. ¶

### Drop Box Saves Time



Did you know that you can quickly drop off your Illinois tax return or other department-related documents without leaving your car?

The **Illinois Department of Revenue** (IDOR) has a drop box in the Jefferson Street circle drive of the Willard Ice Building, 101 West Jefferson Street, Springfield, Illinois. The drop box, which is for IDOR business only, is emptied at the close of each business day. ¶



# IRS Changes Filing Requirements for Schedule B

## *Agency Reduces Burden for More Than 15 Million Taxpayers*

The **Internal Revenue Service** (IRS) and Treasury Department have announced an increase in the threshold for filing a separate schedule for interest or dividend income. The change means more than 15 million taxpayers will have one less schedule to file with their tax return.

For 2002 tax returns, most taxpayers will no longer have to file a separate schedule if they have interest or dividend income of \$1,500 or less. Form 1040 filers use Schedule B, *Interest and Ordinary Dividends*, to list the names of those who paid them along with the amount; Form 1040A filers use Schedule 1. The new IRS standard replaces the existing reporting threshold of \$400.

Without the shift, more than 40 million taxpayers would have to file Schedule B or Schedule 1 next year, according to IRS estimates. The \$400 figure has been in place since 1974.

"While much tax simplification and burden reduction requires Congress to change the law, there are a number of administrative measures the IRS and Treasury can take to reduce complexity and to reduce the paperwork burden on American taxpayers," said Pam Olson, Acting Treasury Assistant Secretary for Tax Policy. "This is one of those measures. We will continue our efforts to reduce the burden on taxpayers and simplify the tax code."

This change will also enable another 800,000 taxpayers to use the shorter Form 1040EZ or use TeleFile to file their tax returns by telephone by increasing the maximum amount of interest income they can report to \$1,500.

As in past years, certain taxpayers with bank or other financial accounts in a foreign country (and certain taxpayers involved in foreign trust transactions) must continue to file Schedule B regardless of the amount of interest or dividends they receive.

Taxpayers with ordinary dividends and taxable interest that each do not exceed the \$1,500

threshold will report only these totals on their Form 1040.

Raising the filing threshold figure for interest and dividend income for individual taxpayers is the second paperwork reduction reform announced by the IRS this year. In April, IRS officials decided to raise the gross receipts and asset limits for filing Schedules L, M-1, and M-2 on certain corporate tax returns. This change, which goes into effect for tax year 2002, is estimated to reduce the filing burden on 2.6 million small businesses.

"We've moved ahead with cutting unnecessary filing requirements as quickly as sound tax administration allows," said Michael R. Chesman, director of the Office of Taxpayer Burden Reduction in the Small Business/Self-Employed Division of the IRS. "This is precisely the kind of change we wanted to initiate when this office was formed less than a year ago."

Increasing the filing threshold will not affect the IRS' efforts to ensure that individuals comply with tax law. The agency routinely receives third-party information returns from the thousands of banks and financial institutions that pay interest and dividends. The IRS then matches these figures to the interest and dividend income reported by taxpayers.

Under law, the threshold amount for filling out a Schedule B for Form 1040 or Schedule 1 for Form 1040A is set at the IRS commissioner's discretion.

"We applaud IRS and Treasury for taking steps to simplify the income tax reporting requirements for taxpayers," said Judith A. Akin, the president of the National Association of Enrolled Agents. "We hope to see continued efforts toward tax simplification."

The Association represents approximately 10,000 tax professionals who are registered with the IRS and can represent taxpayers before the agency. ❖

## Illinois Legislative Recap

New laws enacted in the 2002 session of the 92nd Illinois General Assembly that affect taxes administered by IDOR are listed below.

### Income Tax

#### Senate Bill 2210 - Public Act 92-826

Effective August 21, 2002 (some parts) and January 1, 2003

See listing under Tax Administration.

#### Senate Bill 2212 - Public Act 92-846

Effective August 23, 2002

Senate Bill 2201 amends the Illinois Income Tax Act to incorporate several changes:

- Amends Section 201(l)(i) in reference to "Sections 702 and 704 of subchapter S" to say "Sections 702 and 704 and subchapter S." Amends Section 201(m) limiting the education expense credit to \$500 per family to refer to "the total credit (of) this subsection."
- Moves the exemption for ride-sharing arrangements from Section 202 to Section 203(a)(2).
- Corrects two erroneous references in both, Section 203(b)(2)(M) and Section 203(b)(2)(M-1).
- Amends Section 203(d)(2)(K) to provide dividends paid to a partnership by a corporation qualify for the subtraction modification, if the corporation conducts substantially all of its business in an enterprise zone.
- Amends Section 209(a) to remove requirement that Department of Revenue certify education programs claimed under "TECH-PREP" Credit. (State Board of Education already certifies qualified programs).
- Amends Subsections 502(c)(4)(B)(iii) and (iv) to refer to correct subsections of Internal Revenue Code (IRC) Section 6015, and add references to the United States Tax Court.
- Amends Section 506 to include reporting requirements and new statutes of limitations for refund claims or additional liability assessments due to finalization of federal withholding income tax audit.
- Amends Section 701 to require all state agencies to withhold taxes from any compensation payments, including unemployment compensation.
- Amends Sections 905(f) and 911(c), to provide that, when a partnership, trust, S Corporation, or other pass-through entity enters an agreement with the department to extend the statute of limitations for deficiencies or refunds, the limitations period is automatically extended for partners, beneficiaries, or shareholders.
- Amends Section 905(n) to provide no notice of deficiency shall be issued as the result of a decrease determined by the Department in a net loss incurred by a taxpayer unless the Department has notified the taxpayer of a proposed decrease within 3 years after the return reporting a loss was filed, or within 1 year after an amended return reporting an increase in the loss was filed; provided that, in the case of an amended

return, a decrease proposed by the Department more than 3 years after original return was filed may not exceed increase claimed by the taxpayer on the original return. Amends Section 911(h) to provide similar limitations on adjustment of Illinois net losses by taxpayers.

- Amends Section 1501 to allow an election to treat all income, other than compensation, as business income.

Senate Bill 2212 further amends the proper statutes to repeal authority for the imposition and collection of Chicago use tax outside city jurisdictional boundaries previously granted under Public Act 92-221 (SB 164) from last year. Senate Bill 2212 also amends the Property Tax Code to grant property tax exemption for land owned by City of Chicago and used for the Chicago Skyway (Toll Road/Bridge) in a lease/financing transaction similar to exemption previously granted to CTA lands.



### Miscellaneous / Tax Administration

#### Senate Bill 2210 - Public Act 92- 826

Effective August 21, 2002 (some parts) and January 1, 2003

Senate Bill 2210 amends the Department of Revenue Law of the Civil Administrative Code of Illinois to allow the Department to collect a fee from taxpayers for the cost of offsets taken against an overpayment of Illinois taxes to satisfy an outstanding federal tax liability. These fees are allowed only if federal law does not allow the Department to collect a fee from the federal government for the cost. Senate Bill 2210 further changes provisions concerning what the Director of Revenue must do if a taxpayer files a protest of withholding of an income tax refund for payment of delinquent income tax liability, and establishes an order of priority the Department is to follow when considering requests to withhold refunds to pay delinquent taxes. Senate Bill 2210 also amends the Illinois Income Tax Act to provide that if the due date for payment of a taxpayer's federal income tax liability for a tax year is later than the date fixed for filing the taxpayer's Illinois income tax return for that tax year, the Department may, by rule, prescribe a due date for payment that is not later than the due date for payment of the taxpayer's federal income tax liability. Senate Bill 2210 further amends the Retailers' Occupation Tax Act and other related Acts to provide, beginning January 1, 2003, taxpayers are liable for the filing fee incurred by the Department for filing a lien for delinquent taxes as well as the fee incurred by the Department to file the release of that lien. The filing fees shall be paid to the Department in addition to payment of the tax, penalty, and interest included in the amount of the lien.



## Tax Shelter Disclosure Initiative Benefits the IRS in Fighting Abuse

The **Internal Revenue Service** (IRS) continues to reap benefits from its tax shelter compliance efforts as officials evaluate information produced by the 120-day disclosure initiative that ended earlier this year.

As of the end of August 2002, the IRS Office of Tax Shelter Analysis has recorded 1,664 disclosures from 1,206 taxpayers who disclosed their questionable transactions. These disclosures are being assigned to field agents who will continue to contact taxpayers over the next few months to determine appropriate resolution of their various issues.

"Over one thousand taxpayers voluntarily disclosed questionable tax transactions that they had engaged in and submitted names of the tax shelter promoters who sold them the transactions," said IRS Commissioner of Large and Mid-Size Business Larry Langdon. "We are working to audit and resolve the transactions disclosed by taxpayers as quickly and efficiently as possible."

In addition, the IRS is using the disclosures to identify tax shelter promoters. The IRS is aggressively examining the activities of these promoters, who are required by law to keep lists of all investors that bought tax shelters from them. Upon receipt of the investor lists from promoters, the IRS will be able to identify taxpayers who participated in tax shelters and failed to disclose them.

"Using information from these lists, the IRS will pursue investors who participated in abusive transactions, but did not disclose them," said Commissioner Langdon. "In appropriate cases, penalties will be imposed."

Taxpayers have disclosed transactions in which they claimed deductions or losses amounting to billions of dollars. These transactions will be audited and may result

in additional income tax. Until the IRS completes its compliance actions, it's too early to put a precise figure on the amount of tax collected as a result of the initiative.

Although many of the types of complicated tax shelter transactions disclosed were known to IRS experts, the disclosure initiative also revealed a number of new tax shelter transactions. These transactions are now being analyzed by the IRS Office of Chief Counsel and the Treasury Department for possible identification as transactions that promoters and investors must disclose.

The disclosure initiative, which ended on April 23, 2002, provided taxpayers an opportunity to disclose questionable transactions to the IRS. If taxpayers provided all relevant information about the disclosed transactions or items, the IRS would waive certain accuracy-related penalties that may apply to tax shelters and other questionable items that resulted in an underpayment of tax.

The disclosure initiative is one of numerous steps the IRS and the Department of Treasury have taken recently to shut down abusive tax shelter activity. Apart from the disclosures obtained from this initiative, the IRS is examining over 30 promoters and has issued 163 summonses to 12 promoters, requiring compliance with requests for information.

The IRS continues to seek the views of taxpayers and practitioners as to resolution processes that should be considered and that are consistent with good tax administration. Comments can be sent to the IRS Office of Tax Shelter Analysis via email at: [otsa@irs.gov](mailto:otsa@irs.gov).

For more information on abusive tax shelters, go to the IRS Web site at [www.irs.gov](http://www.irs.gov).

## IRS Proposes User Fee For Certain Offer-in-Compromise Requests

The **Internal Revenue Service** (IRS) issued proposed regulations, which, if adopted, would require a \$150 user fee for many Offers-In-Compromise (OIC). A taxpayer would normally be required to pay the user fee at the time the OIC request is submitted.

Low-income taxpayers — those whose incomes fall below the poverty line — would be exempt from the fee. For this purpose, the proposed regulations would authorize the IRS to use the poverty guidelines

published by the Department of Health and Human Services, or some other measure.

In addition, OICs based on doubt as to liability only (where doubt exists that the tax assessed is correct) would also be exempt from the user fee. The fee would be refunded in certain other situations, described in the proposed regulations.

An OIC is an agreement between a taxpayer and the IRS that resolves the taxpayer's tax liability. Under

certain circumstances, the IRS has the authority to settle, or compromise, federal tax liabilities by accepting less than full payment.

Office of Management and Budget encourages federal agencies to implement user fees to recover the cost of providing special services to some recipients that others do not use. Accordingly, the proposed fee is designed to recover part of the cost of processing OIC requests and evaluating the taxpayer's ability to pay. This user fee

proposal was developed with input from tax professionals, Low-Income Taxpayer Clinics and the IRS Taxpayer Advocate.

A public hearing on the proposed regulations was held in Washington, D.C., on February 13, 2003.

The proposed regulations are available on the IRS Web site at [www.irs.gov/regs](http://www.irs.gov/regs).



## IRS Sets New Audit Priorities

*In her Territory Manager's message on Pages 2-3, Joanne Kopeck discussed high-risk areas of non-compliance. Key areas for the new Internal Revenue Service (IRS) initiative, along with additional information on this important topic are below.*

### Offshore Credit Card Project

It is not illegal to have an offshore credit card. However, there is a reasonable basis for believing that some people are using offshore credit cards to evade paying U.S. taxes. Credit cards provide easy access to offshore funds and accounts in tax haven countries that allow income to be hidden. U.S. citizens must pay tax on their worldwide income.

The **IRS** has taken several major steps to combat tax-avoidance schemes involving credit cards issued by offshore banks. According to public records:

- On October 30, 2000, a federal judge in Miami issued an order authorizing the IRS to serve John Doe summonses on American Express and MasterCard. These summonses were designed to obtain limited information for 1998 and 1999 revealing U.S. participants in offshore arrangements who hold credit cards issued by banks from Antigua and Barbuda, the Bahamas, and the Cayman Islands.
- On March 27, 2002, a federal judge in San Francisco issued an order authorizing the IRS to serve a John Doe summons on VISA International seeking records on transactions for 1999-2001 using cards issued by banks in over 30 tax haven countries.
- On August 21, 2002, a federal judge in Miami issued an order authorizing the IRS to serve a John Doe summons on MasterCard for records on transactions for 1999-2001 using credit cards issued by banks in over 30 tax haven countries.
- On August 29, 2002, the IRS asked seven courts across the nation (Atlanta, Chicago, Dallas, San Francisco, Seattle, Newark, Alexandria, Va.) for permission to serve John Doe summonses on over 40 businesses to assist in the identification of credit card owners.

The first summons alone yielded data from MasterCard on 237,000 cards issued through 28 banks in three countries. The majority of the cards appear to have been issued to U.S. customers.

If the MasterCard information is representative of the industry, there could be 1 million to 2 million U.S. citizens with debit/credit issued by offshore banks. This compares with only 170,000 Reports of Foreign Bank & Financial Accounts being filed in 2000 and only 117,000 individual 1040 filers indicating they had offshore bank accounts (tax year 1999).

Credit cards do not equate to taxpayers. The IRS must utilize an extensive process to identify the taxpayer associated with each card. Spending patterns, unusual expenses, proximity of spending and repetitive expenses are all considered in the process.

Once taxpayers are identified from cards, case building begins. The IRS already has developed hundreds of cases for civil audits or potential criminal investigations. The IRS is increasing resources in Fiscal Years 2003-2004 devoted to working these cases.

### High-Risk, High-Income Taxpayers

High-income returns are often more complex and, generally, upper income taxpayers have resources to engage in pass-through entities such as partnerships, trusts and S-corporations. Even utilizing IRS's various matching programs, income and deductions from such activities are more difficult to verify.

While the IRS has begun to match K-1 forms from pass-through entities, the technique does not provide any verification of income reported by the entity itself. Verifying the income on these returns requires an examination. Starting in Fiscal Year 2003, the IRS will be utilizing a combination of filters to identify high-risk, high-income returns. The returns selected for examination will be those most likely to have unreported income or structured transactions.

A structured transaction is one with limited economic benefit and whose primary purpose is to reduce or eliminate a tax liability. Structured transactions are generally done through one or more pass-through returns, such as Forms 1065 or 1120-S. The pass-through returns create paper losses that flow back to individual income tax returns offsetting income from other sources.

### Abusive Schemes and Promoter Investigations

IRS efforts to combat abusive schemes and scams (including the Offshore Credit Card Project) will significantly increase from FY2002 to FY2003. Schemes and scams on the rise include:

- **Schemes**, reducing a person's tax liability by claiming inflated expenses, false deductions, unallowable credits or excessive exemptions.
- **Frivolous return arguments**, telling taxpayers compliance is voluntary or the U.S. Constitution does not provide for tax collection.

*Continued on Page 19.*





## IRS Sets New Audit Priorities

*Continued from Page 18.*

- **Promotion of slavery reparation claims**, scams that claim compensation for people who have ancestors who were slaves.
- **Abusive shelters and trusts**, investments established for the purpose of hiding income from taxation.
- **Employment tax schemes**, employee leasing, paying in cash and filing false payroll tax returns.

Abusive Scheme Groups are being established in each Area and the use of Fraud Specialists will increase. To identify and address promoter activity, a Promoter Lead Development Center has been created. The Center systematically monitors the Internet to identify promoters of abusive activities and develops cases for injunctive investigations.

### High-income Non-filers

The IRS efforts to address non-filers in FY 2003 will focus on the most egregious and high-risk segments of the population.

The non-filer strategy will be pursued on many fronts:

- Re-engineered processes and work streams to improve efficiency and productivity.
- Identification and expedited assignment of the most egregious non-filers.
- Expanded and centralized automated enforcement.
- Outreach and education efforts.

### Unreported Income

Unreported income represents the largest component of the tax gap. IRS has developed a new tool for identifying returns with a high probability of unreported income. The new tool is known as Unreported Income Discriminant Index Formula (UI DIF).

All individual returns have traditionally been assigned a DIF score rating the probability of inaccurate information on the return. The new UI DIF score rates the probability of income being omitted from the return. The IRS has customarily used indirect examination methods to identify unreported income but until now has had no systemic method for selecting the returns at highest risk for unreported income.

UI DIF gives the IRS the ability to systemically identify returns at high risk for unreported income and beginning this fall all returns will receive a UI DIF score in addition to the traditional DIF score.

### National Research Program

National Research Program (NRP) examinations, which begin last fall, will measure reporting compliance and identify compliance issues. NRP will enable the IRS to improve the examination selection process. NRP is very different from its predecessor, the Taxpayer Compliance Measurement Program (TCMP). NRP no longer relies heavily on time-intensive, "line-by-line" audits for establishing a baseline measure of reporting compliance.

The IRS has not conducted updated research on the distribution of errors on returns for more than 13 years, a period when the economy and the tax law have changed dramatically. Without the information that will be gathered through NRP, the IRS will have less ability to direct examinations and other compliance activities with accuracy and precision. With updated information, the NRP effort will prevent thousands of "no change" audits each year.

The NRP effort will review a small, statistically valid sample of individual returns for tax year 2001, less than 50,000 returns out of 132 million individual returns filed. The new NRP process will have four main categories:

- **No IRS contact.** About 8,000 returns will be checked relying solely on information already available to IRS.
- **Correspondence.** These will be less intrusive correspondence exchanges with taxpayers – rather than the old standard of sit-down audits. About 9,000 returns will be included in this process.
- **Less intrusive audits.** Instead of the old "line-by-line" examination approach, the IRS will gather more information beforehand from agency records and focus only on selected parts of approximately 30,000 returns.
- **Calibration audits.** These will consist of about 2,000 examinations that will check each line of the return. But, in a major change from earlier programs, taxpayers will not be required to provide line-by-line substantiation.

## IRS Reaffirms Abusive Nature of “LILLO” Tax Shelter Transaction

The **Internal Revenue Service** (IRS) reaffirmed its 1999 conclusion that a taxpayer may not deduct rent or interest paid or incurred in connection with a Lease-In/Lease-Out Transaction, also known as a “LILLO” transaction. This ruling is part of a larger effort to respond to abusive transactions that unfairly place more tax burden on other taxpayers.

“We have refined our analysis of LILLOs based on information from actual transactions and have presented a legal position that gives clear guidance to the field and taxpayers alike explaining why we believe these transactions do not work,” said IRS Chief Counsel B. John Williams, Jr. “Our primary position is that LILLOs, in substance, confer only a future interest in property to the U.S. taxpayer, rather than a current leasehold interest.”

“Our position does not rely on the lack of a pre-tax profit potential or business purpose. There may be situations, however, where those facts exist,” Williams said. “In such situations, we may challenge the tax treatment of the transactions on those grounds as well.”

The IRS’s legal position is contained in Revenue Ruling 2002-69, which is available at [www.irs.gov](http://www.irs.gov) and was published in Internal Revenue Bulletin 2002-44, dated November 4, 2002. The 1999 IRS position on LILLO is contained in Revenue Ruling 99-14, which was published in Internal Revenue Bulletin 1999-13, dated March 29, 1999. ☛

## Federal Court Approves Service of IRS Summons on MasterCard

A federal court in Miami, Florida has issued an order authorizing the **Internal Revenue Service** (IRS) to serve a “John Doe” summons on MasterCard International for records of offshore credit cards issued by banks in 30 countries, including Liechtenstein, Switzerland and numerous Caribbean nations, such as Belize, Bermuda and the Cayman Islands.

United States District Judge Ursula Ungaro-Benages signed this order after the Justice Department filed a petition on August 15, 2002, for approval of the summons, which permits the IRS to obtain information about possible tax evasion by people whose identities are not known to the IRS.

The information expected in response to the summons will help the IRS identify people who use offshore accounts to evade their United States income tax liabilities. The IRS suspects people have been evading taxes by diverting income and assets overseas and spending money in the United States by using credit, charge or debit cards issued by banks in offshore tax haven or financial privacy jurisdictions.

“We are pleased that the court acted promptly, as it will help the IRS locate people who evade taxes through offshore accounts,” said Eileen J. O’Connor, Assistant Attorney General for the Department’s Tax Division. “In turn, this information will enable the Justice Department to enforce the tax laws.” ☛

## IRS Issues Additional Certifications of Hybrid Vehicles for Clean Fuel Deduction

The **Internal Revenue Service** (IRS) has certified two more hybrid gas-electric automobiles as being eligible for the clean-burning fuel deduction under a procedure for automobile manufacturers put in place in mid-May.

Purchasers of a new Honda Insight for model years 2001, 2002 and 2003 and purchasers of a Honda Civic Hybrid for model year 2003 will be able to claim a deduction of up to \$2,000 for the year that the vehicle was first put into use.

Federal tax law allows individuals to claim a deduction for the incremental cost of buying a motor vehicle that is propelled by a clean-burning fuel. By combining an electric motor with a gasoline-powered engine, these hybrid vehicles obtain greater fuel efficiency and produce fewer emissions than similar vehicles powered solely by conventional gasoline-powered engines.

The amount of the deduction for the Honda was set after the manufacturer documented for the IRS the incremental cost related to the vehicle’s electric motor and related equipment. American Honda Motor Co., Inc. submitted the necessary information to the IRS under the process specified in Revenue Procedure 2002-42, which was issued in May.

Under the law, \$2,000 is the maximum amount of the one-time deduction, which must be taken in the year the vehicle was first used.

Individuals take this benefit as an adjustment to income. They do not have to itemize deductions on their tax returns to claim it. Taxpayers may claim the deduction for a past year by filing an amended return. ☛



**psssst... Pass It On!**

Tax tips and information for your clients

## IRS Compliance Research Programs

*Tuesday, March 11, 2003 (1-2 p.m. CT)*

What do you really know about the state of compliance with the U.S. tax laws? That's the question that will be answered during a look at how the IRS analyzes filing data, results of enforcement program and the impact of education and assistance to figure out the best mix of efforts to elevate compliance. Learn more about the multi-year National Research Program, which began in Fall 2002, as well as studies of the effectiveness information reporting matching. Learn more about experiments in the use of incentives to improve compliance without any enforcement efforts.

**Who Should Watch:** This program is for practitioners with a general practice, as well as, for college and university accounting and business schools.

For more information, click on [www.taxtalktoday.tv](http://www.taxtalktoday.tv)

## Don't Risk Losing Your 1999 Refund

Do you think you are due a refund for 1999 and haven't filed the tax return yet? If so, you need to file it now. The law generally provides for refunds only if taxpayers file returns within three years of the filing deadline. In order to get your refund for tax year 1999, the **Internal Revenue Service** must receive your return by April 15, 2003. There is no penalty for filing a late return that qualifies for a refund.

## It's Back by Popular Demand "Refunds in About a Week"

Back by popular demand, the **Illinois Department of Revenue** will be issuing tax refunds in about a week for clients who use electronic filing and direct deposit.

We will also provide a refund schedule that tells your clients who electronically file when their tax refund will be direct deposited into their bank accounts.

You may access the schedule by going to our web site at [www.ILtax.com](http://www.ILtax.com). ☎



## for Practitioners

### Volunteers Needed for VITA Program

If you like to help people, you may be interested in the VITA (Volunteer Income Tax Assistance) program. As a VITA volunteer, you would help lower income, elderly and non-English speaking people with their tax returns. Tax assistance is primarily offered in low-income neighborhoods at local community centers, churches and libraries. You can volunteer either as an individual, or your local association may also sponsor a site. Bilingual volunteers (*i.e.*, Spanish, Polish, and Chinese) are especially needed. In addition to the personal satisfaction of helping those in need, you can also earn up to 36 CPE credits over a three year span. For more information, contact Rosie Robinson at 312 566-3337 (Chicago), or Sonya Jacobs at 217-527-6366 (Springfield area).

### New 1040-ES Internet Payment Option

The **Illinois Department of Revenue** is offering a new 1040-ES Estimated Payment Internet payment option, beginning with the 2003 first quarter payment. Taxpayers can access the department's web site at [www.ILtax.com](http://www.ILtax.com) and authorize payments to be electronically withdrawn from their checking or savings account on dates they choose. Multiple payments may be scheduled in advance to occur up through January 15, 2004.

To authorize these payments, the taxpayer will need their Illinois Personal Identification Number, Social Security number, their financial institution's routing and transit number, account number, and account type (checking or savings). ☎



## IRS Official Rulings and Procedures

### Final Innocent Spouse Rules Announced

T.D. 9003, which appeared in Internal Revenue Bulletin 2002-32, dated August 12, 2002 announced final regulations under Section 6015 of the Code. Section 6015 provides guidance to married individuals filing joint returns that seek relief from joint and several liability. Section 6015 was added by the Internal Revenue Service Restructuring and Reform Act of 1998 to replace former Section 6013(e) by providing new and expanded means for a spouse to obtain relief from joint and several liability.

### Proposed Gift Tax Rules

Reg. 123345-01, which appeared in Internal Revenue Bulletin 2002-32, dated August 12, 2002 outlines proposed regulations under section 2519 of the Code which relate to the amount treated as a transfer under section 2519 when there is a right to recover gift tax under section 2207(b) of the Code and related gift tax consequences if the right to recover is not exercised.

### Court Case Causes New Regulations

Reg. 115781-01, which appeared in Internal Revenue Bulletin 2002-33, dated August 19, 2002 provides the proposed regulations under section 2055 of the Code. The regulation conforms income, estate, and gift regulations to the Tax Court's decision in *Estate of Boeshore V. Commissioner*, 78 T.C. 523 (1982) acq. in result, 1987-2 C.B. 1 holding portions of section 2055(e)(2)(vi)(e) of the estate tax regulations invalid. Rev. Rul. 76-225 is revoked.

### Regulations for Returned IRA Contributions

Reg. 125256-02, which appeared in Internal Revenue Bulletin 2002-33, dated August 19, 2002 explains proposed regulations under section 408 and 408(A) of the Code provide a new method for determining the earnings allocable to IRA contributions that are returned or recharacterized before the applicable tax return due date.

### IRS Gets Expanded Compromise Authority

T.D. 9007, which appeared in Internal Revenue Bulletin 2002-33, dated August 19, 2002 gives final regulations under sections 7122, 6331, and 6103 of the code which provide for the compromise of the Internal Revenue Tax and provide expanded compromise authority to the Internal Revenue Service. The regulations will permit compromise of liabilities when there is doubt as to the amount of the liability owed, when there is doubt whether the full amount of tax can be collected, and when compromise would promote effective tax administration. The IRS may compromise to promote effective tax administration when it determines that collection of the full amount of the tax liability would create economic hardship or that the compelling public policy or equity considerations identified by the taxpayer provide a sufficient basis for compromise.

### Circular 230 Rules Clarified

T.D. 9011, which appeared in Internal Revenue Bulletin 2002-33, dated August 19, 2002 outlines final regulations which provide clarifying guidance with respect to and modify the regulations governing practice before the Internal Revenue Service (Circular 230).

### Preparers May Use Alternative to Social Security Number

T.D. 9014, which appeared in Internal Revenue Bulletin 2002-35, dated September 3, 2002 explains that final regulations under section 6109 of the Code allow income tax return preparers to elect an alternative to their social security number for purposes of identifying themselves on returns they prepare.

### Split-Dollar Life Insurance Agreements

Notice 2002-59, which appeared in Internal Revenue Bulletin 2002-36, dated September 9, 2002 explains the standards for valuing current life insurance protection under a split dollar life insurance arrangement. This document also informs taxpayers that certain techniques being used to understate the value of certain policy benefits distort the income, employment, or gift tax consequences of the arrangement and does not conform to, and is not permitted by, any published guidelines.

### Interest in Entireties Property is Subject to Tax Lien

Court Decision 2075, which appeared in Internal Revenue Bulletin 2002-38, dated September 23, 2002 explains that the Supreme Court has concluded that under Section 6321 of the Code, the husband's interest in the entireties property constitute "property" or "rights to property" to which a federal tax lien may attach. *United States vs. Craft*.

### Rev. Ruling Clarifies Self-Insured Medical Plans Rules

Rev. Ruling 2002-58, which appeared in Internal Revenue Bulletin 2002-38, dated September 23, 2002, clarifies that amounts reimbursed under a self-insured medical expense reimbursement plan for medical expenses incurred by an employee prior to the adoption of the plan are not excludible from gross income of the employee under Section 105(b) of the plan.

### Regulations Change Treatment of Some Portfolio Income and Expense Items for Certain Taxpayers

T.D. 9013, which appeared in Internal Revenue Bulletin 2002-38, dated September 23, 2002, provides final regulation under Section 469 of the Code. The regulations recharacterize a percentage of certain portfolio income and expenses as passive income and expenses when a taxpayer engages in a lending transaction with a partnership or S corporation in which the taxpayer owns a direct or indirect interest and the loan proceeds are used in a passive activity.





## IRS Official Rulings and Procedures (cont.)

### Corrections to Final Innocent Spouse Regulations

Announcement 2002-83, appeared in Internal Revenue Bulletin 2002-38, dated September 23, 2002, contains corrections to final regulations providing guidance to married individuals filing joint returns who seek relief from joint and several liability.

### Updated List for Private Delivery Services Acceptable for Timely Filings or Payments

Notice 2002-62, which appeared in Internal Revenue Bulletin 2002-39, dated September 30, 2002, provides an updated list of designated private delivery services for purposes of Section 7052 of the Code. Two new delivery services are added to the list effective September 5, 2002.

### Optional Standard Mileage Rates

Rev. Proc. 2002-61, which appeared in Internal Revenue Bulletin 2002-39, dated September 30, 2002, announces the standard mileage rates for automobiles for 2003. Thirty-six cents is the optional rate for deducting or accounting for business use of an automobile. Fourteen cents is the optional rate for use of an automobile as a charitable contribution. Twelve cents is the optional rate for use of an automobile as a medical or moving expense. The procedure also provides rules for substantiating the expenses of using an automobile for business, moving, medical, or charitable purposes.

### Rules for Substitute Tax Forms and Schedules

Rev. Proc. 2002-60, which appeared in Internal Revenue Bulletin 2002-40, dated October 7, 2002 outlines the requirements for privately designed and privately printed federal tax forms and the conditions under which the IRS will accept substitute computer-prepared and computer-generated tax forms and schedules.

### Per Diem Rules for Employee's Travel Expenses

Rev. Proc. 2002-63, which appeared in Internal Revenue Bulletin 2002-41, dated October 15, 2002 provides rules for deeming substantiated the amount of certain reimbursed travelling expenses of an employee as well as optional rules for determining the amount of deductible meals and incidental expenses while traveling away from home.

### "Listed Transaction" Straddle Warning

Notice 2002-65, which appeared in Internal Revenue Bulletin 2002-41, dated October 15, 2002 advises taxpayers and their representatives that the transaction it describes, which involves a straddle, an S corporation, or a partnership and one with more transitory shareholders or partners to claim a loss while deferring an offsetting gain, is subject to challenge by the Service on several grounds. This notice holds that the described transaction is a "listed transaction" and warns of penalties that may be imposed if taxpayers claim losses from such transactions.

### Substantial Understatement Adequate Disclosure Defined

Rev. Proc. 2002-66, which appeared in Internal Revenue Bulletin 2002-42, dated October 21, 2002 provides guidance concerning when information shown on a return in accordance with the applicable forms and instructions will be adequate disclosure for purposes of reducing an understatement of income tax under section 6662(d) of the Code.

### Substantially Equal Periodic Payments; Premature Distributions

Rev. Rul. 2002-62, which appeared in Internal Revenue Bulletin 2002-42, dated October 21, 2002 provides that a change to the required minimum distribution method of calculating substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) of the Code will not generate additional income tax under section 72(t)(1) of the Code.

### Boxing Club No Longer Qualifies as Charitable Organization

Announcement 2002-99, which appeared in Internal Revenue Bulletin 2002-43, dated October 28 states that the Cedar Rapids Boxing Club, Inc., no longer qualifies as an organization to which contributions are deductible under section 170 of the Code.

### Low Income Housing Tax Credit

Rev. Rul. 2002-65, which appeared in Internal Revenue Bulletin 2002-43, dated October 28 advises taxpayers that rental assistance payments made to building owners on behalf or in respect of a tenant under the *Rent Supplement* program or the *Rental Assistance Payments* program are not grants made with respect to a building or its operation under section 42(d)(5) of the Code.



Department of the Treasury  
**Internal Revenue Service**

Communication Office 4315 CHI  
230 S. Dearborn Street  
Chicago, IL 60604

OFFICIAL BUSINESS  
PENALTY FOR PRIVATE USE, \$300

PRSRT STD  
U.S.POSTAGE  
PAID  
IRS  
PERMIT NO. G-48

***Avoid a Refund Delay***  
*The*  
***"Electronic Way!"***

